

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2017-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO QUESTIONS 3(B)-(C) AND 5
OF CHAIRMAN'S INFORMATION REQUEST NO. 2
(October 19, 2016)**

The Postal Service hereby files its responses to the above-captioned questions from Chairman's Information Request (CHIR) No. 2, issued on October 18, 2016. Each question is stated verbatim and is followed by the Postal Service's response. The responses to the remaining questions from CHIR No. 2 are still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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3. Please refer to Library Reference USPS-LR-R2017-1/4, Excel files "CAPCAL-PACKSERV-R2017-1.xls," and "Crosswalk FSS Rollback Package Services.xls."
- a. Please provide the RPW extract file for each quarter used for the distribution of BPM FSS volume. Specifically, please provide extract files for Quarter 4 FY 2014, Quarter 1 FY 2015, and Quarter 2 FY 2015.
 - b. In Excel file "Crosswalk FSS Rollback Package Services.xls," tab "Distribution Key," footnote two states "Q2 FY 2015 was used twice to replace Q3 FY 2015, because of the price change that was implemented in Q3 FY 2015, on May 31, 2015." Please provide an explanation for using Quarter 2 FY 2015 twice, as opposed to a different quarter or an average of the three previous quarters.
 - c. The FY 2015 Quarter 4 billing determinants for Package Services identifies a FSS Scheme DDU volume of 227,368. See Excel file "4Q15 BPM_BDs.xls," tab "Presort Flats BD Q4," cell O17. Excel file "Crosswalk FSS Rollback Package Services.xls," tab "FSS Volume," does not identify any FSS Scheme DDU volume. Please explain what price the DDU volume paid in FY 2015 Quarter 4. Also, please explain how the DDU volume was distributed between DFSS F and DFSS S for the hybrid year within the "FSS Volume" tab of the crosswalk file, and provide supporting workpapers.

RESPONSE:

- b. The second quarter of FY 2015 (Jan, Feb, Mar) was used as a proxy for the third quarter of FY 2015 (Apr, May, Jun), because the volumes from the second quarter have historically, compared to other quarters, better mirrored the volumes from the third quarter. Volumes from the fourth quarter (July, Aug, Sept) or the first quarter (Oct, Nov, Dec) typically have higher volume and higher density due to the Christmas and back-to-school mailing seasons. These seasonal volume differences also make an average of the fourth quarter of FY 2014, and

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the first and second quarters of FY 2015 inappropriate for use as a proxy for the third quarter.

- c. The Postal Service submitted revised BPM billing determinants for FY 2015 on March 25, 2016, in Docket No. ACR2015. Since the DDU price category does not exist for FSS Scheme volume, the originally mislabeled 227,368 pieces were appropriately categorized as DFSS-S in Excel workbook *BPM_BDs_2015--Q4_Revised_03_25_16.xlsx*.

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5. Standard Mail, Periodicals, and Package Services all contain adjustments to billing determinants to reflect the elimination of FSS prices. Notice at 28, 31 and 33.

- a. Please confirm that for Standard Mail, the Postal Service adjusts the applicable volume from each quarter based on a similar quarter when the FSS prices did not exist. See Library Reference USPS-LR-R2017-1/2. The table below shows the basis for these adjustments. If not confirmed, please explain.

| Hybrid Year Quarter | Basis for FSS Distribution |
|---------------------|----------------------------|
| FY 2015 Quarter 4 | FY 2014 Quarter 4 |
| FY 2016 Quarter 1 | FY 2015 Quarter 1 |
| FY 2016 Quarter 2 | FY 2015 Quarter 2 |
| FY 2016 Quarter 3 | FY 2014 Quarter 3 |

- b. Please confirm that for Periodicals, the Postal Service adjusts the hybrid year volume based on FY 2014 Quarter 3 through FY 2015 Quarter 2 volume. See Library Reference USPS-LR-R2017-1/3. If not confirmed, please explain.
- c. Please confirm that for Package Services, the Postal Service adjusts the hybrid year volume based on FY 2014 Quarter 4 through FY 2015 Quarter 2 with FY 2015 Quarter 2 used twice to replace FY 2015 Quarter 3. See Library Reference USPS-LR-R2017-1/4. If not confirmed, please explain.
- d. Please provide a narrative that explains the rationale for using different distribution methods to adjust the billing determinants to eliminate FSS prices in the Standard Mail, Periodicals, and Package Services library references.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

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- d. Prior to the implementation of FSS-specific rates in Docket No. R2015-4 (May 31, 2015), Standard Mail and Periodicals postage was assessed based on virtual preparation (i.e. the presort rates that pieces would have qualified for in the absence of FSS preparation). This virtual preparation was documented in electronic "Mail.dat" files,¹ which are used in the production of the Mail Characteristics Study (e.g., Docket No. ACR2015, USPS-FY15-14). As a result, Mail Characteristics Study data are available for use as a rate distribution key for FSS prepared Standard Mail and Periodicals pieces in the hybrid year. While Standard Mail and Periodicals use the same data source and time period, the Standard Mail distribution is applied quarterly (as opposed to annually) because Standard Mail experiences significant seasonal variability from quarter to quarter.

For Bound Printed Matter (BPM) Flats, similar Mail Characteristics Study data were not produced from electronic Mail.dat files. Instead, for BPM Flats, separate postage statement lines were introduced to record FSS prepared mail paying Carrier Route and Presort rates. For this reason, the RPW report, which is the published source for such postage statement information, provides the only historical data available for use as a distribution key for FSS prepared BPM pieces. Unfortunately, a full hybrid year cannot be obtained, because the RPW data from both Quarter

¹ "Mail.dat" files are submitted by mailers and provide information related to how individual mailings are prepared for rate qualification purposes.

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3 of FY 2014 and Quarter 3 of FY 2015 are subject to significant transitional inaccuracies.² Since an accurate measure of Q3 distributions was not available, Quarter 2 of FY 2015 was used as a proxy distribution for Quarter 3 of FY 2016. The reasons for using Quarter 2 of FY 2015 as a proxy distribution are discussed above in response to Question 3(b).

² The transitional inaccuracies relate to: 1) the implementation of FSS rate categories approved in Docket No. R2015-4 in the middle of Q3 of FY 2015; and 2) postage statement limitations related to the implementation of an FSS rate category for BPM Flats in Docket No. R2013-10 (*See* Docket No. R2015-4, Response of the United States postal Service to Order No. 2378, at 10-11, March 12, 2015).